CRE Opinion

North Texas Multifamily Market Update: Doing Much Better than It Actually Feels

Colliers' Jorg Mast says when inflationary pressures subside and interest rates settle down, DFW will continue to claim its place as one of the busiest multifamily markets in the country.

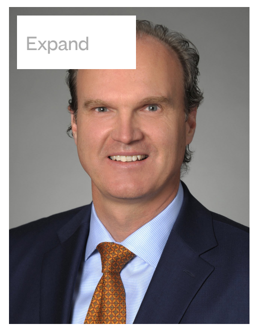
By Jorg Mast | October 26, 2022 | 11:55 am

Courtesy Billingsley Co.

It can be challenging to look past the convergence of negative headlines – inflation, dwindling consumer confidence, volatile debt markets, a slowing housing market – that seem to stare us in the face daily, but underneath the bad news are some very positive trends. The worst of the pandemic is behind us, the markets have settled and we can go about living our lives again with a great level of normalcy.

It goes without saying how blessed we all are to live in North Texas, where business is booming and the economy keeps expanding at an astounding pace. I use the term 'North Texas' intentionally because, with Dallas-Fort Worth at its heart, we can tell that our ever-growing metroplex is pushing its outer boundaries into many of the smaller cities surrounding it. In search of more affordable and developable multifamily land, many apartment developers have started building in smaller markets such as Ennis, Waxahachie, Sherman, Aubrey, Weatherford, etc. on the periphery of the metroplex. They are experiencing excellent success leasing and selling their properties. Ten years ago, no multifamily developer or investor would have even contemplated building in these locations. This proves that Dallas-Fort Worth has, yet again, reached another growth stage.

Companies from out of state keep moving here, and local businesses are making significant investments, expanding their footprints, creating new jobs, and adding approximately 295,000 jobs in the past year alone. More people than ever are moving to Dallas-Fort Worth to take advantage of this booming economic machine. And with new people comes more money, new talent, and new consumer behavior, one of which is a much higher housing spending tolerance. It has become clear that the pandemic has helped accelerate the growth in North Texas.



Jorg Mast of Colliers
Courtesy Colliers

How is all this translating itself into the apartment market?

Before we talk about the present and the future, we need to understand the past. Post-COVID through Q1 of 2022, the multifamily market experienced its best market ever; Dallas/Fort Worth boasted the highest number of multifamily transactions in the nation exceeding other markets by billions of dollars in investment sales volume.

Well, over the summer, things have changed a bit. Unfortunately, the party with limitless capital, record-breaking prices, and the lowest interest rates in history has come to an end. Over the last 120 days, we have been adjusting to higher interest rates and figuring out where values are headed. As we all know, nobody likes change and uncertainty. But when you look at the current state of the apartment market, things are still looking extremely good; they are just back to normal the way it was pre-COVID.

Here is the good news.

The multifamily market continues to be strong as apartment market fundamentals continue to be a bright spot:

Supply and demand are keeping a healthy balance. Dallas/Fort Worth had significant amounts of new deliveries, which have been absorbed in record levels during the last 12-18 months in spite of rising rents.

Apartment developers are still getting their deals done even though they are experiencing substantial headwinds from cost increases and supply chain issues.

The construction volume of single-family for rent product (“BTR”) has picked up significantly, and it seems to have found an insatiable amount of demand in the marketplace.

Occupancy remains right around 95 percent. I hate to say it, but the slowing for-sale housing market probably helps the apartment market as many people continue to rent instead of buying a house for themselves.

And, as rents continue to climb somewhat slower, they are still 15 percent over pre-pandemic levels.

What is the takeaway?

Things have slowed down, and apartment values have slipped, but the current situation feels a lot worse than it is. It was so good that we find ourselves in a state of shock, unwilling to believe that things are back to normal. Even though apartment property values have come down by approximately 7 to 10 percent, they are still significantly higher than any investor had anticipated when they purchased or started developing their deals.

It will not take long; people’s mindsets will adapt to a more positive attitude again and take the good with the bad. Hopefully, inflationary pressures will subside soon, interest rates will settle down, and Dallas/Fort Worth will continue to claim its place as one of the busiest multifamily markets in the country.

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